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SUBJECT: CENTRAL CHINA RISING: HENAN PLEASED WITH PROGRESS

REF: (A) BEIJING 3578

- (B) BEIJING 3085
- (C) BEIJING 4808
- (D) BEIJING 5578
- (E) BEIJING 5797

SUMMARY

¶11. (SBU) In a series of meetings with EconMinCouns, Henan Provincial Government officials painted a picture of a province whose strategy of economic opening has resulted in three years of GDP growth above 14 percent as well as growing participation of foreign companies in local industry. The Central Government's Central China Rising strategy is paying off for Henan and helping the province transition from a state-directed to market economy. A large agricultural province, Henan has been affected by national food safety and food price concerns, but local officials believe those problems are now under control. END SUMMARY.

TRAVEL TO HENAN

. (SBU) EconMinCouns, Econoff an Econ Assistant Conoff traveled to Zhengzhou, Henan Province August 26-28. Econ Min Couns met with Henan's Vice Governor and delivered a speech on bilateral economic relations to more than 200 students at Zhengzhou University. Econoffs also met with the Provincial Development and Reform Commission and Provincial Foreign Affairs Office as well as visited the Zhengzhou Commodities Exchange. Zhengzhou is the site of the Embassy's first Virtual Presence Post (VPP) in China, and pictures from the visit can be found at <http://zhengzhou.usvpp.gov> (see also Ref A).

VICE GOVERNOR: HENAN OPEN FOR BUSINESS

¶13. (SBU) Vice Governor Li Ke said on August 27 that Henan's rapid economic growth provides many opportunities for foreign investment. Li reiterated that Henan is China's most populous province with 98 million people, has the fifth largest GDP, and produces more than one quarter of the country's wheat output. GDP increased by 14.1 percent in 2006, exceeding 14 percent for the third year in a row. The province also serves as a transportation hub for rail and air links, Li said, and Henan now has more than 4,000 km of highways.

¶14. (SBU) The province's opening (kai fang) strategy already has borne fruit, according to Li, with many prominent foreign companies investing in Henan's state-owned enterprises (SOEs). Li pointed out that American companies, including Goldman Sachs and Budweiser, recently have sought out opportunities in the Province. A Goldman Sachs subsidiary purchased a share of Henan's Shuanghui Investment and Development Company in January 2007, and Budweiser recently purchased a share of Jinxing Beer. (Note: Another American

company, Amsted Rail, will hold the opening ceremony for its joint venture cast steel wheel manufacturing plant, the Xinyang Amsted Tonghe Wheel Company, in Henan in September. End Note.)

HENAN'S PDRC ON THE PROVINCE'S TRANSITION

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¶15. (SBU) Wei Zhiyong, Head of the Foreign Economy Department at the Provincial Development and Reform Commission, said the Central Government's Central China Rising strategy (Ref B and previous) has helped the province attract more foreign investment, albeit it at a lower level than the coast. Wei said the province matched its total FDI volume for 2006 in the first eight months of 2007, most of it (60 percent) in the manufacturing sector. Henan's location in the central part of the country and an economic structure skewed towards the agricultural sector remain the two largest obstacles to attracting investment, Wei said.

¶16. (SBU) Despite Henan's rapid economic growth, Wei said Central Government macroeconomic cooling measures do not need to be applied in Henan. Central China needs rapid growth to close the gap with more developed coastal China, he said, and Henan will need to take additional steps to transition from a largely state-owned to market economy. Overall, however, the province's existing infrastructure and transportation network, as well as additional support from the Central Government, give Henan a good foundation for future development, he said.

FOOD INDUSTRY WEATHERING RECENT STORMS

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¶17. (SBU) As a large agricultural province, Henan recently has faced challenges on food safety (Ref C) and price increases (Ref D), but local officials believe the situation is improving. On food safety, an official at the Foreign Affairs Office said the provincial

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government is taking the problem very seriously and has taken steps to improve food quality, including establishing an interdepartmental working group. According to these officials, the problem appears manageable (see Ref E for more on the food safety discussion). With regard to food prices, Wei Zhiyong stated that prices are declining again after the provincial government took steps to increase the pork supply.

PICCUTA